



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.07

Voluntary Report - public distribution

Date: 11/20/2005

GAIN Report Number: RS5315

Russian Federation

Market Development Reports

The Russian Far East

2005

Approved by:

Eric Wenberg, ATO Director
American Embassy, Moscow

Prepared by:

Svetlana Ilyina

Report Highlights:

Vladivostok and the Russian Far East (RFE) are a market for U.S. foods undergoing an impressive economic transformation at present. Food retail outlets and new restaurants are opening at a quick pace, as the region's consumers spend more on high quality foods. The RFE is home to more domestic and foreign investment projects than can be listed easily and economic prospects are bright as the resource-rich RFE develops.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Moscow ATO [RS4]
[RS]

Russian Far East profile:

The Russian Far East (RFE) is Russia's largest region, constituting 215,000 square miles, or 36.4 percent of the entire country. The RFE borders China and North Korea on the south, and Japan on the east. Maritime borders include the Sea of Okhotsk, Japan and Bering Sea.

The Russian Far East is endowed with unique and rich national resources. It contains Russia's largest reserves of some traditional raw materials and minerals: antimony, boron, tin (up to 95 percent of national reserves), fluorspar and mercury (up to 60 percent). The world's largest diamond province is located in the northwest and contains more than 80 percent of Russia's diamond reserves. Also, the RFE is one of Russia's most important gold producing areas (40 percent of Russian reserves, 55 percent of national mining operations).

Fuel and energy resources include oil (some nine billion tons) and gas (about 25 trillion cubic meters), brown and black coal. The most important biological resources of the region are fish and seafood. The vast RFE ocean area contains the world's largest stocks of salmon, codfish—some 60 percent of Russia's reserves. As well the region's forest resources account for 35 percent of the national total.

General Economic Information:

The RFE's population is 6.68 million, with the main concentration in Primorskiy Kray (2.06 million) and Khabarovskiy Kray (1.44 million). Women account for 51.1 percent of the population, nine percent are children under 18 years. The region is 76 percent urban, and 26 percent live in agricultural areas. The largest cities in the RFE are Vladivostok (591,800) and Khabarovsk (582,700). About 37 percent of the region's population is concentrated in nine cities. Though the population of the Russian Far East decreased by 39,200 in 2004, the decline in population has begun to level out.

For the last four years, the region has exhibited steady economic growth. The volume of the RFE industrial production increased by seven percent annually, reaching 669 million Rubles in 2004. More importantly, a distinct trend in the region is a steadily growing consumers' income. Consumer incomes have grown even faster, topped off by an estimated 14 percent jump in 2003. In 2002, aggregate consumers' income totaled 78 billion rubles (USD 2.6 billion), an increase of 35.2 percent since 2001. Real disposable income increased by 18 percent.

In 2004, the volume of foreign investment to the RFE totaled to 159 billion Rubles, an 11.5 percent increase compared to the previous year. The main investors in the regional economy are the Netherlands (63 percent), Russian offshore companies (eight percent), USA (five percent) and Great Britain (four percent).

Agricultural production

Due to its northerly location and relatively extreme climate, the RFE is unable to produce enough agricultural products to feed its population and the rapidly developing food processing industry. Production agriculture is most developed in the southern RFE regions: Amurskaya Oblast, Khabarovskiy and Primorskiy Kray. Soybeans, corn, feed grains, and vegetables are cultivated. In 2004 the output of the agricultural products in the region totaled to 446 billion Rubles (1.1 percent over previous year). The region produced 144,100 tons of meat, 990.2 million eggs, 335,700 tons of soybeans, 609,900 tons of milk (96.6 percent of 2003), 269,400 tons of grain (83.5 percent of 2004), 1.67 million tons of potatoes (93.7 percent of 2003 crop), 571,300 tons of other vegetables.

The potential of RFE agriculture is greater than current output levels indicate, but not without lower energy costs and a revolution towards Western management of farms. During the post-Soviet period, agricultural production decreased significantly: cultivated land by 31 percent, arable land by 29.2 percent, row crops by 61 percent, and grain production by 76 percent.

In 2003, from the 2.26 million hectares of arable land only 1.3 million were cultivated. As well, from 1999 to 2003, cattle herds decreased by 63 percent, swine population by 81.5 percent, and poultry by 72 percent. The region imports a lot of agricultural products for the rapidly developing food processing industry as well as high-end products. Currently, only seven percent of population is engaged in agricultural business.

Food imports in RFE

The RFE has always imported agricultural and food products. The post-perestroika years had a very negative effect on regional agricultural production. As a result, the volume of agricultural product imports and foods increased significantly.

RFE's food supply comes from two channels: direct import from Pacific RIM and Asian Countries: China, South Korea, USA, Australia, New Zealand, Vietnam, India, etc. Importers distribute products from the Russian Far East to Eastern Siberia areas that include several large cities such as Novosibirsk and Irkutsk. Eastern Siberia's is inhabited by 20.4 million people that, although mostly rural, is home to resource rich areas. Vladivostok Commercial port is the main RFE port and handles 80% of all food shipments. Importers distribute food products to quick developing, major retail stores. Currently fresh fruits (apples, pears, oranges, pomelas, lemons, grapes), frozen meat for processing and of restaurant quality, meat by products, poultry, ingredients for food processing, some foodstuffs for retail and restaurants: microwave pop corn, frozen potato products and fries, fish and seafood for Japanese cuisine is imported from US directly. Before the 1998 default the RFE had more American products for retail: salad dressings, seasonings, cereals, candy bars, canned and frozen vegetables, and juices. There were some branded U.S. grocery retail products sold. The ruble crash and resulting import substitution made U.S. products more expensive for the Russian market. Now with several years of economic growth, incomes are rising in Russia, and with the favorable dollar rate it can be a good moment to enter the market with American products of top quality and competitive price.

The RFE uses products from Turkey, Israel, Argentina, South America, Brazil, and the United States as transshipped through Moscow. The shipments from St. Petersburg and those trucked from European countries are consolidated in Moscow and distributed. One Vladivostok distributor brings from Moscow consolidated containers of different products already customs cleared and labeled. American wines, sauces, dry fruits, almonds, cheesecakes are coming to the RFE market through Moscow. This adds unnecessary expense for RFE customers with the Moscow importer earning a commission and the customer paying 6,000 miles of transportation expenses.

In 2004, the region imported 29,900 tons of meat products totaling \$28.4 million, including 14,700 thousand tons from China, 15,200 tons from the United States. About 212,000 tons of vegetables were imported from China and 2,800 tons from the United States. In 2004, the total amount spent on fruit imports reached \$43.4 million. The volume of fruit imports totaled 83,500 tons, or \$32.8 million. The main fruit supplier to the RFE is China. Among other important agricultural import items are: oilseeds (6,900 tons China), rice

(126,900 tons from China and 70,900 tons from Thailand), and sugar (66,500 tons from Thailand).

Currently China is the biggest supplier of agricultural and food items to the Russian Far East. The RFE market is price sensitive and in many items, China is the most competitive. Further, the proximity of China simplifies trade logistics; it takes five hours to bring products from the Chinese border to Vladivostok, the main market and transport hub. However, Russian customers have become more and more concerned about product quality and food safety, and Chinese products do not have a good image on the local market. The consumer in the RFE provides a niche for some American products, and recent favorable changes in exchange rates have improved the price competitiveness of many U.S. food products. As well, the RFE offers a natural market from the U.S. West coast. On the import side, 30 seaports scattered along RFE's coast handle the bulk of Russia's foreign trade flows to/from Asian Pacific countries. The Trans Siberian Railroad, with direct access to these ports, opens the Central and Eastern Siberia markets that include an additional 10 million consumers.

Statistics and Trends:

- Food Processing has grown as much as 27-30 percent annually since 2001, in the meat and dairy sector, while prepared foods, such as grocery items, snacks, and confectionary product processing has grown 12 percent each year.
- Retail trade turnover in January-March 2004 increased by 27 percent over the same period of 2003. Sales volume of food products goods increased by 25.9 percent.
- Per capita GDP was \$2,400 in 2002, but at Purchasing Power Parity rates was \$8,300.
- Growing consumer demand has encouraged rapid expansion in food retail (up 22 percent in 2002), HRI (up 28 percent), and food processing (up 14 percent).
- As a result, imports of intermediate and consumer-oriented food products to the RFE in 2004 increased 30 percent and 21 percent, respectively

Table 1. Advantages and Challenges

<i>Advantages</i>	<i>Challenges</i>
Five consecutive years of strong economic growth and rising incomes boost demand for new and better quality food products	While the middle class clearly is expanding, many consumers still are not benefiting fully from the growth of the Russian economy.
Despite steady increases in domestic food production, imports are growing at a strong pace	Some consumers are wary of imported food products, frightened by misleading and inaccurate stories in the local media
Inconsistent availability and quality for some local products create import opportunities for a variety of food and beverage products	Strong competition from products supplied by nearby West European countries and by increasingly sophisticated local producers
Local food processors must source new and better quality food ingredients to compete with imports of consumer-oriented products	Processors often lack access to cheap credit, so may be forced to limit growth or use cheaper imported or local inputs
New western-style supermarkets are rapidly expanding to meet consumer demand for variety and service, creating a good venue for imported products	About 40-50 percent of food purchases in larger cities and 70 percent or more of food purchases in the regions are still made in open markets or small Soviet-style stores
Importers/distributors/processors are beginning to look beyond traditional local or West European suppliers	Longer shipping time for U.S. products ties up importers' funds and complicates supply logistics.

Contact the report author, Svetlana Ilyina, on market opportunities in the Russian Far East at the Agricultural Trade Office, U.S. Consulate in Vladivostok. Svetlana.ilyina@usda.gov. ATO Vladivostok supports a culinary festival in Vladivostok, held each September, for those wanting to promote their products. Read about market opportunities across Russia at FAS' Russia website <http://eng.usda.ru>